Urge Actions to Stem Foreclosures and Stabilize Housing Market

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Washington, DC – Following the recent release of a Congressional Oversight Panel (COP) report, which found that the Administration’s current housing relief efforts lack scope, scale and permanence, Congressman Joe Sestak (PA-07) and top economist Dr. Mark Zandi, today, held a press conference to highlight the need for a comprehensive homeownership vesting plan to address the nearly 12 million homeowners who are currently underwater-- owing more on their mortgage than the value of their home.

The Congressman’s plan— H.R. 1356, the Homeownership Vesting Plan Act-- which he has advocated since March, addresses many of the independent Panel’s concerns. It ensures a more rapid recovery in the housing market by assisting distressed homeowners through affordable and sustainable loan modifications that provide the necessary incentives for homeowners and lenders to prevent further foreclosures. As originally conceived the Plan could avoid further loss of $1.1 trillion in household wealth to approximately 1.7 million homeowners—equating to approximately $55 billion of consumer spending. The Congressman’s plan stabilizes housing prices and encourages financial institutions to begin lending again.

During the conference call, the Congressman and Dr. Zandi noted that immediate action is necessary as an additional 250,000 foreclosures are initiated monthly and foreclosure starts are estimated to reach 12 million by 2012 as Adjustable Rate Mortgages reset in the next two years. A failure to act quickly will further the cycle of foreclosures, declining home prices, and the lack of affordable credit that has slowed our economic recovery.

During the call, Congressman Sestak noted that "millions of working families are struggling to afford their mortgages, with an estimated two million children affected by foreclosures in 2008 and 2009. In the last year, foreclosure rates have risen 35 percent and housing delinquency rates have increased 44 percent, while home values have declined 13 percent and new home sales have dropped three percent. We must provide greater assistance to homeowners now or-- as this month's independent Congressional Oversight Panel (COP) report makes clear-- the situation will only worsen, harming our recovery efforts. My Plan—the Homeownership Vesting Plan Act— provides homeowners with a secure path to stable homeownership and double efforts to rebuild the housing market."

Dr. Zandi added that "nothing works well in our economy when home prices are falling."

Below, please find additional details regarding the Congressional Oversight Panel's Finding and Congressman Sestak's Homeownership Vesting Plan:

Specifically, the Congressional Oversight Panel review found that with no further foreclosure mitigation efforts, an estimated 8.5 million additional homeowners will default over the next three years, of which potentially 5 million homes could be lost through foreclosure or short-sales. This would continue the cycle of unemployment and falling economic activity that has plagued our economy since December 2007.

The Panel identified three primary concerns with the Administration's current efforts:

The first problem of scope. Treasury hopes to prevent as many as 3 to 4 million of these foreclosures through Home Affordable Modification Program (HAMP), but there is reason to doubt whether the program will be able to achieve this goal. The program is limited to certain mortgage configurations. Many of the coming foreclosures are likely to be payment option adjustable rate mortgage (ARM) and interest-only loan resets, many of which will exceed the

HAMP eligibility limits. HAMP was not designed to address foreclosures caused by unemployment, which now appears to be a central cause of nonpayment, further limiting the scope of the program. The foreclosure crisis has moved beyond subprime mortgages and into the prime mortgage market. It increasingly appears that HAMP is targeted at the housing crisis as it existed six months ago, rather than as it exists right now.

The second problem is scale. The Panel recognizes that HAMP requires a significant infrastructure–both at Treasury and within participating mortgage servicers–that cannot be created overnight. Foreclosures continue every day as Treasury ramps up the program, with foreclosure starts outpacing new HAMP trial modifications at a rate of more than 2 to 1. Some homeowners who would have qualified for modifications lost their homes before the program could reach them. Treasury's near-term target for HAMP– 500,000 trial modifications by November 1, 2009 – appears to be more attainable, but even if it is achieved, this may not be large enough to slow down the foreclosure crisis and its attendant impact on the economy. Once the program is fully operational, Treasury officials have stated that the goal is to modify 25,000 to 30,000 loans per week. Treasury's own projections would mean that, in the best case, fewer than half of the predicted foreclosures would be avoided.

The third problem is permanence. It is unclear whether the present program's modifications actually put homeowners into long-term stable situations. Though still early in the HAMP program, only a very small proportion of trial modifications that were begun three or more months ago have converted into longer term modifications. In addition, HAMP modifications are often not permanent; for many homeowners, payments will rise after five years, which means that affordability can decline over time. Moreover, HAMP modifications increase negative equity for many borrowers, which appears to be associated with increased rates of redefault. The result for many homeowners could be that foreclosure is delayed, not avoided.

If enacted, the Congressman's Homeownership Vesting Plan addresses these shortcomings. The Plan would allow qualifying homeowners, who entered into their mortgage between January 1, 2003 and December 31, 2007, to have their mortgage separated into two pieces. The first piece would include a 30-year, fixed-rate Federal Housing Authority (FHA)-insured loan with a balance equal to 97.5% of the home's current appraised value. The second piece of the mortgage would be a non-amortizing, no-interest loan from the Treasury, with a balance equal to the difference between the homeowner's original loan amount and the new FHA loan. Under the Congressman's plan, every year that the homeowner remains current on the new FHA loan, a fifth of the balance owed to the Treasury would be forgiven. After five years of consistent payments, the Treasury loan would be paid off. The original mortgage owner would then own a new FHA loan, and would also receive a payment from the Treasury equal to the difference between the original loan amount and the FHA loan. To protect the taxpayer, if the homeowner defaulted on the FHA loan during the five-year vesting period, the non-vested portion of the

Treasury loan would be repaid first; then the mortgage owner would receive the remainder of the foreclosure proceeds. To incentivize cooperation from mortgage investors, the plan provides mortgage servicers $1,000 for each loan modified.

The Plan is estimated to provide stability to the estimated 18 million American homeowners who will have negative equity by 2011. The Plan targets working families who are being harmed greatly by the current economic crisis, through no fault of their own.